




1

## Training outline



- 🐝 Defining a “clean audit”
- 🐝 Understanding the purpose of an audit action plan
- 🐝 What to include in an audit action plan
- 🐝 The inter-relationship between internal and external audit findings
- 🐝 How to improve internal control deficiencies identified by the Auditor General

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2

2

## MFMA 2018/2019 audit outcomes

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### PERFORMANCE SNAPSHOT

OVERALL  
REGRESSION  
IN AUDIT  
OUTCOMES

46 ▼ Regressed  
33 ▲ Improved

### OVERALL AUDIT OUTCOMES



#### Outstanding audits

The audits of **28** municipalities were not finalised by 31 January 2020

#### Clean audits



8% ▲  
(2017-18: 7%)

#### Quality financial statements

48% ▲  
(2017-18: 52%)

18% (43)  
Municipalities submitted financial statements without material misstatements

#### Cost of consultants to assist in financial statement preparation

**R1,26 billion \***

59% (134)  
Financial statements submitted for auditing included material misstatements in areas in which consultants did work

\* Consultant costs include **R741 million** for audits completed by 31 January 2020 and **R522 million** relating to outstanding audits or audits subsequently finalised

#### No findings on performance reports

33% ▲  
(2017-18: 37%)

48% (109)  
Achievement reported not reliable

#### No findings on compliance with legislation

9% ▲  
(2017-18: 8%)

#### Irregular expenditure

**R32,06 billion\*\*** ▼  
(2017-18: R24,38 billion)

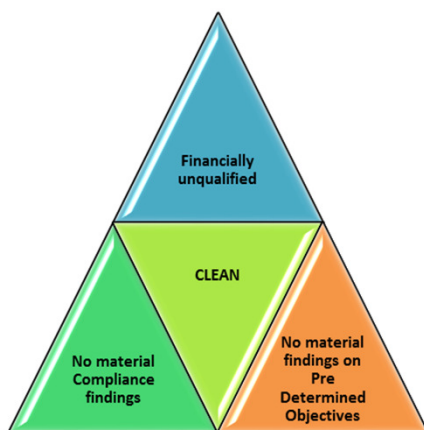
\*\*Irregular expenditure includes **R21,46 billion** (2017-18: R16,63 billion) for audits completed by 31 January 2020 and **R10,60 billion** (2017-18: R7,75 billion) relating to outstanding audits or audits subsequently finalised

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3

3

## Defining a "Clean Audit"



No material findings on the following matters:

- Misstatements in the financial statements
- Emphasis of matters
- Annual performance report
- Compliance with laws and regulations
- Internal control & Risk
- Significant findings from the audit on procurement and contract management

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4

4



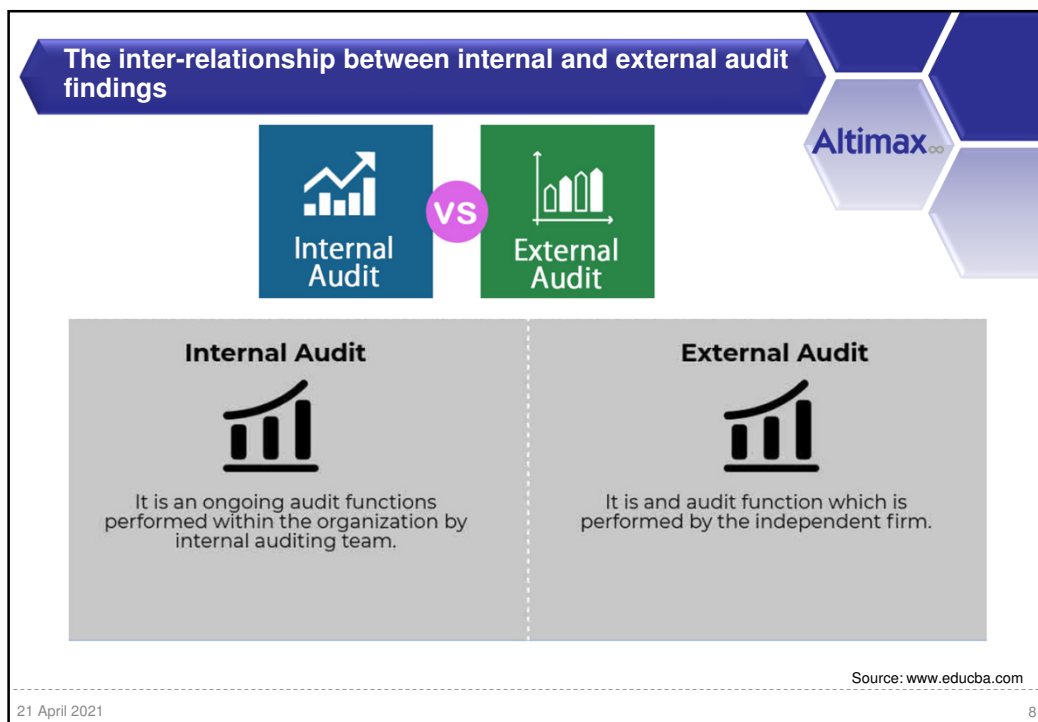
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6



7



8

The inter-relationship between internal and external audit findings

Internal Audit

vs

External Audit

Internal Audit

Internal auditor usually from inside the organization and its employee of the organization and appointed by Management.

External Audit

External auditor is from outside the organization (Third Party) and it is appointed by share holder of organization.

Source: [www.educba.com](http://www.educba.com)

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9

The inter-relationship between internal and external audit findings

Internal Audit

vs

External Audit

Internal Audit

Management.

External Audit

Shareholders.

Source: [www.educba.com](http://www.educba.com)

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10

The inter-relationship between internal and external audit findings

Internal Audit

vs

External Audit

Internal Audit

Continuous process.

External Audit

Once in a year.

Source: [www.educba.com](http://www.educba.com)

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11

11

The inter-relationship between internal and external audit findings

Internal Audit

vs

External Audit

Internal Audit

To evolves the routine activities and provide control for the improvement.

External Audit

To Investigate and verify the financial statement of the organization.

Source: [www.educba.com](http://www.educba.com)

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12

12

## How to improve internal control deficiencies identified by the Auditor General

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- 🐝 Daily, monthly & year-end procedures.
- 🐝 Ensure all registers and / or control accounts are cleared and balanced monthly for example debtors, creditors, bank reconciliation, stores etc.
- 🐝 Revenue Management
  - Monthly all meters are read
  - Posting of accurate accounts
  - Daily receipting of cash and banking
  - Respond to consumer enquiries
- 🐝 Expenditure Management
  - Payment of creditors within 30 days
  - Creditor reconciliations
  - Expenditure control
  - Segregation of duties

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13

13

## How to improve internal control deficiencies identified by the Auditor General

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- 🐝 Property Plant and Equipment (GRAP 17).
  - Impairment and review of useful lives
  - Ensure fixed asset register is complete and updated
  - Reconcile of register with GL
  - Supporting documentation to support evidence
- 🐝 Compliance with Laws and Regulations
  - Prevent unauthorised, irregular & fruitless and wasteful expenditure
  - Adhere to MFMA reporting requirements
  - Submit accurate financial statements (no material adjustments)
  - Adhere and implement approved policies

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14

14

## How to improve internal control deficiencies identified by the Auditor General

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### Supply Chain Management

- Compliance to procurement and contract management (Bid committees, quotations etc.)
- Awards made to persons in the service of the state
- Prevent uncompetitive bids or unfair procurement processes
- Safeguard procurement documentation
- CIBD requirements and Restricted Suppliers Database
- Compliance check list
- Unauthorised, irregular and wasteful expenditure

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15

15

## How to improve internal control deficiencies identified by the Auditor General

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### Performance management

- Ensure targets are SMART
- Submit draft Service Delivery Budget Implementation Plan (SDBIP) with tabled budget and ensure adequate time to review targets
- Design Standard Operating Procedures (SOP) with the target to test whether it is SMART – define the target, Portfolio of Evidence (POE), etc.
- Regular review of achievement of targets – at least monthly meetings followed by formal quarterly assessments
- POE is vital – ensure that reported information is supported by documentary evidence

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16

16



## How to improve internal control deficiencies identified by the Auditor General

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### Combined assurance

- Senior Management
- Accounting Officer
- Internal Audit Unit
- Audit Committee
- Mayoral Committee
- Council
- MPAC
- PT, NT and COGTA

### Other important matters

- Continuously capacitate officials
- Ensure each official understands their duties and responsibilities
- Understand and apply the policies and procedures especially SCM
- Proper segregation of duties
- Share best practices with colleagues
- Commitment of every official to diligently perform their duties from the lowest to highest level

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17

17

## How to improve internal control deficiencies identified by the Auditor General

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### Consequence management

- Accountability is an important aspect of organisational success
- Consequence management should be applied fairly and consistently
- Distinguish between human error made in good faith and fraudulent activities and/or gross negligence
- Reward good work

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18

18

## Common AG findings and suggested corrective measures

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- 🐝 Failure to take accountability and institutionalise the basic disciplines of record management, reconciliations and fundamental reviews in the areas of revenue and asset management, receivables, recording of disclosure items, as well as performance reporting and compliance with laws and regulations.
- 🐝 The root causes of these findings included the slow response by management in implementing action plans, instability and vacancies in key positions, as well as a lack of understanding of the municipal financial and performance reporting requirements.

MFMA  
2017-18

CONSOLIDATED GENERAL REPORT on the local government audit outcomes



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19

19

## THANK YOU

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20

20